

# Cheshire East

## Cabinet

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<b>Date of meeting:</b>	12 August, 2008
<b>Report of:</b>	People Work Stream Lead
<b>Title:</b>	Progressing the Extra Care Housing Strategy across Cheshire

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The decision on this matter falls within the definition of a key decision and would normally be expected to be included within the Forward Plan which is published monthly and includes details of key decisions to be made during the four month period ahead. However, this decision can still be made where the procedure contained in Rule 12 of the Access to Information Procedure Rules in the Constitution has been followed. This provides that where the decision has to be taken by such a date that it is impracticable to defer the decision until it can be included in the next Forward Plan, the Monitoring Officer must inform the Chairman of the Scrutiny Committee of the matter to which the decision is to be made, copies of the notice have been made available to the public at the shadow council's offices, and at least five clear working days have elapsed since the Monitoring Officer has complied with those obligations. In this case, the necessary procedure has been followed, and accordingly, the Cabinet may take the decision.

### **Executive Summary**

The Joint Committees have already been apprised of a range of key developments which require early guidance from the Shadow Authorities. One such priority is the development of extra care housing for our growing population of older people. This new provision provides older people with a high quality apartment, with access to a 24 hour care and support team, plus a wide range of communal facilities to enhance health and wellbeing. These facilities are also available for use by the wider community.

A 'mixed funding' strategy has been pursued in Cheshire to shape the market to achieve a target of 2400 apartments by 2011. A key feature of the strategy has been to ensure that extra care is a choice option for all older people regardless of their financial status. This has meant ensuring a good proportion of affordable rented extra care apartments are available alongside the option to purchase or share ownership.

One means of funding schemes with affordable rented apartments as a key element is to utilise the Private Finance Initiative (PFI) route. To encourage the development of affordable extra care housing, central government has made available in recent years two allocations of PFI funding (known as 'Round 3' and 'Round 5' funding). In the face of serious competition, Cheshire has been fortunate to attract funding from both allocations.

### **Round 3**

From the 'Round 3' funding we have a 30 year agreement for PFI contract with a consortium known as Avantage to design, build and operate 433 apartments, on five sites, providing some 240 affordable rented apartments. Building work on all five sites is underway, in Handforth, Middlewich, Crewe, Winsford and Ellesmere Port.

Separating the above contract between the two new Authorities will be expensive to achieve, and therefore to achieve best value and consistency of contract management, **Members are asked to support the development of an Inter Authority Agreement for**

**one Authority to monitor and manage the above Round 3 Private Finance Initiative Contract.**

## **Round 5**

Given the rapidly growing population of older people in Cheshire, the rising costs of their care, and the fact that PFI is one of only a few affordable routes to acquire the resources to commission large scale capital projects, a bid for additional PFI credits of £47.8m for a further 200 rented apartments as part of a total of 400 apartments at four sites, Chester, Ellesmere Port, Poynton and Alsager {or Sandbach} was submitted under 'Round 5' of the PFI scheme. DCLG has already given its preliminary support to this bid, and asked the County Council to submit an Outline Business Case by December 2008.

**Members are asked to endorse the completion of the Outline Business Case and agree, in principle, to the extension of the Inter Authority Agreement to progress the next phase of procurement via a single Authority.**

## 1.0 Purpose of Report

- 1.1 To introduce Members to the extra care housing strategy for older people. This report in particular considers two Private Finance Initiative{PFI} funded schemes for the delivery of Extra Care Housing for Older People, a PFI 'Round 3' scheme started some time ago to deliver five developments, all of which are already being built ,and a 'Round 5' potential Scheme for four developments for which PFI funding has yet to be secured

## 2.0 Decision Required

- 2.1 A 30 year PFI contract (Round 3) to design, build and manage 433 extra care apartments across five sites is already in place for schemes being developed in Ellesmere Port, Winsford, Middlewich, Crewe and Handforth. **Members need to decide how this contract should be managed by the two new authorities.**
- 2.2 A bid for a second PFI funding allocation (Round 5) to develop a further 400 extra care apartments across four sites in Chester, Ellesmere Port, Poynton and Alsager {or Sandbach} has been given preliminary support by the Department for Communities and Local Government. The proposal is currently at the Outline Business Case stage. **Members are asked to endorse the completion of this work, and consider how the future procurement can be best progressed to maximise value for money**
- 2.3 In addition to the PFI funding route, there are other potential approaches to developing affordable extra care housing, **Members are asked to consider endorsing work to secure 'Preferred Providers' who could work in partnership with the new Authorities to develop extra care in the future.**

## 3.0 Financial Implications for Transition Costs

- 3.1 Re: the current Round 3 PFI contract transition costs will be dependent on the Members decision. If the option to develop an inter authority agreement is agreed these will be nil. If the option to renegotiate the contract is taken and develop a separate contract for each new Authority the transition cost will be between £400,000 and £500,000 shared by the Authorities
- 3.2 There are no transitional costs associated with the Round 5 procurement or developing the 'Preferred Provider' strategy, although the Round 5 process may be prejudiced if we need to go back, and revise it into two separate proposals as the costs for two smaller schemes would be greater than one large scheme.

## 4.0 Financial Implications 2009/10 and beyond

- 4.1 Re: the Round 3 PFI contract if the decision was to develop an inter authority agreement were taken there would be nil long term costs. If the option of creating a separate contract were taken the estimated additional cost would be £900,000 over the life of the contract, broadly shared by the two new Authorities.
- 4.2 Re: Round 5 procurement if this is progressed by an inter authority agreement the expected shared Authority costs are estimated at £750,000. If the procurement was

developed separately by each authority the estimated cost would be £750,000 each. Not to progress the Round 5 proposal would however place long term funding pressures of social care budgets estimated at £20m over a 30 year period, assuming no replacement schemes came forward.

## **5.0 Risk Assessment**

**5.1** There are no specific risks associated with the options to manage the Round 3 PFI contract.

**5.2** With respect to the Round 5 procurement, if this did not proceed, there is a risk that there would be insufficient affordable rented extra care housing in some communities. If the procurement progressed, but via the two Authorities separately, there is a risk that the Department of Community and Local Government would consider the individual Authority proposals of insufficient scale to warrant PFI funding. The level of support from the Department of Communities and Local Government would not increase should the bid be split. The likely reduction in market interest, the loss of economies of scale for bidders and the need for much of the procurement cost to be duplicated would make it impossible to achieve the desired specifications within that budget.

**5.3** The above risks focus on the potential implications linked to the emergence of the new authorities. As with any large contract there are more generic risks which are independent of the Local Government Review outcome. In a PFI contract one of the key features is to transfer risk from the local authority to the provider, and a PFI contract significantly reduces the level of risk compared with the authority developing the schemes themselves. The Round 3 scheme has been developed in line with Government procurement guidelines to ensure the Authority is protected from undue risks and the contract specifies in great detail the arrangements should concerns arise. Five possible areas of concern are worth highlighting.

- **Construction Risks** - One key feature is that no payment is made to the Provider until each scheme is completed, protecting the Authority if the developer could not complete the build. The Council is not liable for any costs until an operational property is delivered.
- **Business Risks** – As it is a 30 year contract there is a higher than normal risk that part of the consortium ceases to trade or goes bankrupt during the contract term. The nature of the PFI scheme again offers protection as the party carrying the greatest risk would be the funder (Nationwide) whose repayments would be at risk. They would therefore ensure that an alternate provider steps in to pick up any gaps in the provision.
- **Demand Risks** - A third risk is that of lack of demand for extra care. Whilst this is highly unlikely given the demographics in Cheshire, should demand evaporate over the life of the contract, there are options to widen the use of the extra care to other user groups, or remodel schemes for other uses. This risk is shared across the Council and the landlord as they will be losing rental and service charge income, all parties would be working to maintain services to a standard to sustain demand.

- **Quality Risks** – The contract is controlled through a document called a payment mechanism, this sets out the minimum standards that the provider has to meet throughout the term of the contract; should they fall below these standards in any way the payment the Council makes is reduced.
- **Financial Risks** – There are circumstances which are deemed outside the control of the Council or the provider where risk is shared. These include factors such as inflation rates, should these rise above the modelled rate of 2.5% it may be necessary to increase the Council's contributions. Should inflation average below this figure the Council would reduce its contribution.

**5.4** There are no specific risks associated with progressing the 'Preferred Provider' strategy.

## **6.0 Background**

**6.1** In 2004 the Housing, Health and Social Care agencies across Cheshire came together and developed a strategy to deliver 2400 extra care apartments for older people. This strategy was put together in response to the huge projected increase in the numbers of older people in our population. Hitherto we have been reliant, once we can no longer support people in their own homes, upon residential and nursing care homes. Extra Care offers older people a new way of being supported in their local community by integrating housing, care support and leisure provision. At a national level the development of extra care housing is now a key element in the National Strategy for Housing in an Aging Society (Department of Communities and Local Government 2008), is embedded as a priority in both the North West Regional Spatial Strategy and the Cheshire Sub Regional Housing Strategy, as well as being endorsed locally by the Supporting People Commissioning Body and now established as a key Local Area Agreement target in Cheshire.

**6.1.2** A 'mixed funding' strategy has been progressed in Cheshire with the aim of minimising local council tax payers contributions and maximising resources from private developers, registered social landlords, Housing Corporation Funding, Department of Health Capital Grant and utilising the Private Finance Initiative (PFI) route. This market shaping strategy has been successful with some 900 apartments open, on site or with planning permission secured, with a further 700 apartments being considered.

**6.1.3** 433 apartments are being developed on County Council owned land via Round 3 PFI Credits at five sites (Ellesmere Port, Winsford, Crewe, Middlewich and Handforth) in partnership with a consortium, Avantage. This is a 30 year contract with payments commencing in 2009 upon a phased completion of the build programme. Building work has commenced at all five sites. Projected facility availability is as follows: Handforth January 2009, Ellesmere Port March 2009, Middlewich April 2009, Winsford June 2009 and Crewe July 2009

**6.1.4** Following a successful Expression of Interest for Round 5 PFI credits in March 2008, there is now an opportunity to secure funding for an additional 400 apartments across four sites (Chester, Ellesmere Port, Poynton and Alsager or Sandbach). 200 of these apartments would be at affordable rented levels. If successful this could attract PFI Credits in excess of £47million.

**6.1.5** The reorganisation of local government raises issues regarding the monitoring, management and funding of the Round 3 Contract, its associated 5 Year Care and Support Contract and also how to progress the opportunity of the Round 5 bid. This Report will provide Members with a definition of extra care housing, why it needs to be developed, an understanding of PFI procurement and recommendations for progressing the strategy in the light of the emergence of the two

## **6.2 What is Extra Care Housing?**

**6.2.1** Although there is no single definition of extra care it typically provides high quality apartments in a communal setting ranging from 40 apartments in some schemes up to extra care 'villages' with over 100 apartments.

**6.2.2** Within schemes there is usually a wide range of facilities to promote socialisation and enhance health and wellbeing. At the five PFI sites currently being developed there will be a restaurant, lounges, craft and activity room, library, health suite, hair and beauty salon, as well as a 'village hall' - a flexible space for a range of activities. An 'events coordinator' will ensure that there is a wide and varied programme of activities available. The extra care vision sees other local older people also utilising these communal facilities contributing to the preventative health care agenda.

**6.2.3** The final key component is the availability of a 24 hour on site care and support team for residents to access, funded by the Community Services Department. Extra care is designed to support older people with a range of health and social care needs. The aim is to achieve a 'balanced community' of residents with a third having high dependency needs (as an alternative to residential care), a third with medium dependency needs, and a final third with low level needs but who would still benefit from the extra care environment. This approach seeks to ensure a sense of neighbourliness and mutual support. Charges for care and support will be based on the dependency level individuals require i.e. high, medium or low.

## **6.3 Why Develop Extra Care Housing**

**6.3.1** The starting point is meeting older people's aspirations to live in their own home. This is a key message from older people. They want to stay in control of their lives, have access to a range of choices regarding their accommodation, enabling them to stay as independent as possible. Extra care adds significantly to the options available, and all the evidence suggests these schemes are immensely popular with older people, providing high quality homes with care and security built in alongside access to a range of social activities

**6.3.2** In particular older people do not want to move into long stay care settings. Extra care is specifically designed to provide an alternative to such provision, with a third of places reserved for this purpose.

**6.3.3** There is a need to expand the range of services available to meet the needs of a growing older population. The changes ahead are immense with similar patterns of significant growth across both the new Unitary Authorities. Between 2008 and 2025 the numbers of over 65's will increase by 28,900 to 95,700 in Cheshire East, a 43% increase. The over 75s will increase by 20,100 a 64 increase, and the over 85s by

6,600, a 74% increase. In Cheshire West and Chester the over 65s will increase from 58,600 to 81,400, a 22,800 increase, some 39%. The over 75s will increase by 15,700, a 57% uplift and for the over 85s, the increase will be 5,800, a 79% increase. Demand from the later two age groups in particular will ensure a healthy demand for services like extra care.

- 6.3.4** Given the demographic pressures it is essential that maximum effort is made to encourage people to stay as fit and active as possible. It is envisaged that extra care schemes will provide a focal point in local communities to promote 'active ageing' with local people accessing the communal facilities.
- 6.3.5** There are powerful economic reasons to develop extra care housing. There would need to be unprecedented levels of social care funding to keep pace with the demographic changes described. Simply doing more of the same would not be sustainable. Extra care offers a genuine win-win both for the older person but also local authorities. This is well illustrated for those for whom extra care is an alternative to long term care. The cost of long stay residential care homes is £367 per week; the cost in extra care is £180 per week. Different charging regimes for residential and community services (such as extra care) narrows the net saving, but this remains at a substantial £100 per week or £5,200 per person per annum. If, as anticipated, a third of the 2400 target are in the high dependency band this represents a reduction in spend for the local authorities of some £4m/annum. The 'win' for the older person is having the independence of their own apartment, access to a wide range of facilities, as well as a responsive and flexible care regime.
- 6.3.6** The drivers noted have focused on the aspirations and demand side of older people's needs. There are also significant supply side issues extra care seeks to address, making an important contribution to regeneration and sustainable communities.
- 6.3.7** Extra care is seen as extending accommodation options for older people, enhancing the limited supply of affordable homes and improving the condition of housing for older people which is consistently identified as the worst provision for any age group. Local Registered Social Landlord surveys in Cheshire have found that over 40% of older people want to move to more suitable accommodation, due to infirmity or long term debilitating illness. A survey (February 2006) of sheltered stock in Cheshire found that over a third of schemes were proving 'hard to let' due to a mix of poor accommodation (20% were bed sits) and shared facilities. Just 0.2% of this accommodation was wheelchair accessible. Extra care is seen as offering not only more choice but also better quality and suitable accommodation.

## **6.4 The Private Finance Initiative (PFI) Route**

- 6.4.1** The correct title is a public private partnership funded by the Private Finance Initiative or PFI for ease of reference. The PFI transforms Local Authorities from being the owners and operator of assets, to the purchasers of services. In a PFI transaction a private sector provider is given responsibility for designing, building, financing and operating an asset, usually for 30 years, from which a public service is delivered. Local Authorities are given financial assistance (in the form of PFI credits) towards the costs. This makes a significant contribution to meeting the annual Unitary Charge payable to the private sector provider throughout the lifetime of the

contract. Inherent in PFI contracts are key performance indicators which, if not met, result in deductions from the Unitary Charge (for example, if facilities are unavailable).

**6.4.2** The Government has an agenda to enhance the number of affordable houses and uses PFI as a vehicle to achieve this. Creating affordable extra care for rent, at local target rents, is particularly important if extra care is to be a genuine choice option for all older people regardless of their income. 3 in 10 older people in Cheshire still rent their property. This is a key attraction of the PFI route - it facilitates the creation of affordable rented extra care apartments.

**6.4.2** The PFI approach is subject to different perceptions but in Cheshire it has secured for the older people of Cheshire some very significant new provision suited to their needs and benefiting local communities. Without the PFI the necessary level of capital resources could not have been secured, and nor are they likely to be in the future. In the current economic climate PFI is one of the few opportunities for Local Authorities to develop new state of the art provision

## **6.5 The Round 3 PFI Contract**

**6.5.1** The Council's Output Specification set a target to develop 400 apartments across five sites; 240 for rent, 80 for shared ownership and 80 for sale. The successful provider, Avantage, will in fact deliver an additional 33 apartments on the specified sites. The PFI credits will support the rented apartments and their share of communal facilities.

**6.5.2** The PFI route allowed the County Council to specify very clearly the projects requirement - a clear benefit to procuring extra care by this method. The County Council received £55m in PFI credits towards meeting the annual Unitary Charge payment. This covers 88% of the Unitary Charge payment (the remaining costs being funded from Community Services revenue budget). This subsidy makes PFI a very attractive method of commissioning large capital projects for local authorities since the funding is grant money rather than an approval to borrow money. There are, however, other costs for the local authority. With a PFI it is typically expected all sites are made available on a long –lease basis at nil cost, and the two year procurement process requires dedicated funding to provide for dedicated internal and external advisors. These later costs were £1M for the Round 3 Contract but it would be hoped that this could be reduced for a possible Round 5 Bid if the Authorities chose to retain the current internal expertise and experience and opted to jointly procure the facilities.

**6.5.3** The contract covers the construction and operation of properties across the whole of Cheshire with 2 sites in the boundaries of Cheshire West and Chester and 3 sites in East Cheshire. In financial terms the determining factor which drives payments is the number of rented properties in each area. This split is 41% West and 59% East. The 2009-10 Unitary Charge payment (£4.3m) would therefore be split with payments of £1.8m and £2.5m respectively. The bulk of these payments would be covered by Government support totalling £4.1m in 2009-10, no final confirmation has been received from the funding body but it is anticipated that this funding would be split on the same basis. The balance between Council funding and Government funding varies over the 30 year contract. The funding to cover this cost was approved in the



County Council's 2008-09 base budget. That budget was based upon a single PFI contract; any increased costs incurred through disaggregating the contract are currently unfunded.

## **6.6 Round 5 PFI**

- 6.6.1** Given the significant benefits of the PFI route Cheshire County Council has sought additional credits for a further 200 rented apartments, plus a further 200 apartments for shared ownership and sale to be developed on four sites as already noted. The initial estimate of credits needed is £47.8M and the Department of Communities and Local Government (DCLG) has already indicated its preliminary support for the scheme and has asked for the submission of an Outline Business Case {OBC} by December 2008.

## **7.0 Options**

### **7.1 Round 3 PFI Contract**

- 7.1.1** Separating the current Round 3 PFI 30 years contract between the two new Authorities (effectively a renegotiation of the terms) will be expensive to achieve (estimated cost £0.5M) and have ongoing costs for both the Authorities and Avantage (estimated at 0.9M over the lifetime of the contract for the Authorities). It is proposed that the Authorities enter into an Inter Authority Agreement to govern the day to day management of the Contract with Avantage. It is suggested that to achieve best value and consistency of approach to the Contractor that one Authority should lead on the contract administration reporting into a joint appropriate officers/member arena with all costs (monitoring and unitary charge) shared based on the percentage of rented apartments in each Authority. This shared governance arrangement ensures each Authorities interests are represented throughout the lifetime of the contract and administration costs minimised
- 7.1.2** The Care and Support Contract for the five sites (plus a separate scheme in Nantwich) has been tendered by Cheshire County Council and awarded to Housing 21 for a five year period commencing on the date in 2008 when the first site should become occupied. This contract has already been signed. It is proposed that this contract be assigned to the two new Councils and run forward to its conclusion in 2013; each Authority would meet the costs attributable to those properties within their area which will vary according to the care and support needs of the people living there. These costs, some £2.5m/annum in total, are currently planned for in Community Services Revenue budgets. The Contract contains an option to extend it for 2 years and a decision about whether to exercise this could be taken by each Council nearer the end of the initial 5 year term.

### **7.2 Round 5 PFI Procurement**

- 7.2.1** Revenue funding to complete the OBC has previously been agreed by Members of Cheshire County Council. Also the Capital Programme for Extra Care has provision to fund the purchase of the four proposed sites. Three sites are already in County Council ownership; a fourth, in Alsager or Sandbach, needs to be secured. The new Authorities need to be aware of this OBC work stream and are requested in this Report to support its completion, since, if successful, it would attract funding in

excess of £47m to take forward the development of Extra Care Housing by the new Authorities. Members of all three Authorities will have the opportunity to consider the detail of the completed OBC and determine if it goes forward in the late autumn.

- 7.2.2 Members will need to consider how to proceed should the OBC be submitted and approved. CLG have suggested their preference would be for a single authority to take the bid forward to minimise both authority and bidder costs. To split the project along Unitary Council lines would effectively double the local authority costs of procurement, fragment competition and significantly reduce the viability of the resulting projects. If a decision was taken to jointly procure a Round 5 solution, CLG would envisage both Authorities entering into an inter authority agreement to cover the lifetime of the contact. Such an agreement would document reporting and cost sharing principles, together with agreement on appropriate reporting mechanisms and representations of officers and elected members on any working group and governance structure. It would be proposed that each Authority's full Council consider agreement to proceed at key milestones in the procurement process. The issue of an Inter-Authority Agreement for Round 3 has been dealt with earlier in this paper. It is suggested that the terms of both Agreements mirror each other where possible to ensure continuity and consistency of approach, and that they adopt the principle of a lead Authority with an appropriate division of procurement costs and resources.

### **7.3 Establishing Preferred Partners for Extra Care**

To progress extra care development beyond the PFI route, Cheshire County Council Members have agreed to secure 'preferred partners' who can be approached as future sites are identified. This work is in its early stages, and Members of the new authorities are asked to endorse its continuation to establish partners who could work with the new Authorities post April 2009.

## **8.0 Recommendation**

### **That Members:**

- 8.1.1 Agree to support the development of an Inter Authority Agreement for one Authority to monitor and manage the Round 3 Private Finance Initiative Contract.
- 8.1.2 Agree to support the proposal to assign to the new Council the benefit of the five year Care and Support Contract awarded to Housing 21 until 2013, with each Council meeting the costs of care at the sites within its boundaries.
- 8.1.3 Endorse the completion of the Round 5 Private Finance Initiative Outline Business Case, and the securing of an option on a fourth site.
- 8.1.4 Agree in principle to progress an Inter Authority Agreement to progress the Round 5 bid via a single authority on the basis that full details would be presented to Members at the time of the Outline Business Case submission.
- 8.1.5 Endorse the work to secure 'Preferred Providers', with a view to the new Authorities utilising such Providers.

**8.1.6** **8.1.6** that a Member from each of the new Authorities accept an invitation to attend the Public Private Partnership Panel for Extra Care Housing which meets quarterly to give strategic direction to the Extra Care strategy

## **9.0 Reasons for Recommendation**

**9.1** To progress the extra care housing strategy in Cheshire until the 31<sup>st</sup> March 2009 and thereafter in Cheshire West and Chester Council and Cheshire East Council.

### ***For further information:***

*Portfolio Holder: Councillor*

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### ***Background Documents:***

*Documents are available for inspection at:*